STATEMENT ON THE NEXT FEDERAL BUDGET

BY THE

CANADIAN LABOUR CONGRESS

TO THE

HONOURABLE MARC LALONDE, MINISTER OF FINANCE

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«WE THINK IT'S MORE IMPORTANT TO PROVIDE JOBS AND GROWTH THAN TO BE CONCERNED ABOUT A DEFICIT THAT IN CANADA IS SMALLER, COMPARED WITH THE SIZE OF OUR ECONOMY, THAN IT IS IN WEST GERMANY OR JAPAN OR IN A LOT OF COUNTRIES WHERE THEY'RE DOING WELL. IF THE PRIVATE SECTOR IS NOT CREATING ENOUGH JOBS TO PUT THE LABOUR FORCE TO WORK, I SEE NO REASON WHY GOVERNMENT SHOULDN'T TAKE A LARGER PROPORTION OF THE GROSS NATIONAL PRODUCT IN ORDER TO CREATE JOBS.»

- Right Honourable Pierre Trudeau
February 1980 Election Campaign

«INDEED, MASSIVE UNEMPLOYMENT WHICH DEPRIVES PEOPLE OF THE DIGNITY OF HUMAN WORK AND AN ADEQUATE FAMILY INCOME, CONSTITUTES A SOCIAL EVIL. IT IS ALSO A MAJOR ECONOMIC PROBLEM SINCE HIGH UNEMPLOYMENT RATES ARE ACCOMPANIED BY LOWER PRODUCTIVITY, LOWER CONSUMPTION OF PRODUCTS, REDUCED PUBLIC REVENUES, AND INCREASING SOCIAL WELFARE COSTS. THUS, ALTERNATIVE STRATEGIES ARE REQUIRED WHICH PLACE PRIMARY EMPHASIS ON THE GOALS OF COMBATTING UNEMPLOYMENT BY STIMULATING PRODUCTION AND PERMANENT JOB CREATION IN BASIC INDUSTRIES; DEVELOPING A MORE BALANCED AND EQUITABLE PROGRAM FOR CURBING INFLATION; AND MAINTAINING HEALTH CARE, SOCIAL SECURITY, AND SPECIAL ASSISTANCE PROGRAMS.»

- Ethical Reflections on the Economic Crisis,
The Episcopal Commission for Social Affairs,
Canadian Conference of Catholic Bishops,
January 5, 1983

INTRODUCTION

In prefacing this presentation on the next federal budget with two statements that encompass both values and policy, the Canadian Labour Congress is tempted to ask: what more needs to be said?

Clearly, in their separate ways, the Prime Minister's election commitment and the extremely relevant message from the Canadian Conference of Catholic Bishops, focus on the economic problem which stands above all others - the unemployment crisis. The conviction of the Catholic Bishops rests firmly on the bedrock of moral indignation. Unfortunately, for the nation as a whole and for the growing ranks of the unemployed in particular, the Prime Minister's conviction has had a less reliable foundation.

Indeed, within a year of his election promise on job creation, Mr. Trudeau and the cabinet produced a document (Discussion Paper on Anti-Inflation Policy Options, January 9, 1981) which obviously envisaged an exactly opposite effect. It stated in part:

> «The requisite degree of public support for a full-fledged program of controls, however, is clearly not present at this time. Moreover, with real wages having actually fallen over the past few years, it would be very difficult for the government to impose further wage restraint...There may be a greater willingness to contemplate controls when fiscal and monetary restraint has resulted in more general or severe slack in the economy.»
> (underlining added)

Anyone looking for evidence of a planned depression need look no further!

In laying the basis for its eventual 6 and 5 program, the Liberal Government was simply reaffirming its pursuit of anti-worker, anti-union and most important, economically

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misguided, policies that began in 1975 with the imposition of wage controls and the application of monetarist dogma in the form of tight money and high interest rates.

In short, the economic wreckage that surrounds us in 1983 is largely a case of reaping what has been deliberately sown. The negative politics of restraint and lowered expectations have «succeeded». But who's applauding?

The Canadian Labour Congress, in submitting and to a great extent repeating, its views on the economy and recovery, is struck by a sense of having seen it all before. With respect to three key issues - interest rates, unemployment and the deficit - the Congress has been in the forefront of analysis that has been proven correct but only belatedly and reluctantly accepted by segments of government and business.

We said high interest rates were strangling the economy. Depressed consumer demand, increasing layoffs, personal, farm and small business bankruptcies at record levels and the mortgage renewal squeeze all testified to that. But it wasn't until large corporations and their creditors, the banks, together with the government itself began to feel the pinch of the high cost of borrowing, that high interest rates began to be acknowledged as a source of, rather than a solution to our problems.

We said that in its obsession with fighting inflation, the government was ignoring the social and economic costs of unemployment. Only recently, with a declining rate of inflation symbolizing a weakening economy, has the government begun to admit that joblessness has reached truly unconscionable proportions.

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Finally, we said that choking economic growth would exacerbate the size of the deficit by curtailing government revenues and that countering this trend with expenditure cuts would only worsen the spiral. Just within the past two or three months, it would appear that some of the business community and government have recognized this lesson also, and are prepared to accept a productive, short-term expansion of the deficit.

We cite this record not out of righteousness, but to establish the fact that on matters affecting our nation's economic health, the Canadian labour movement has been credible. We expect that credibility to be taken seriously, more seriously than it has been in the past by this government. The Canadian Labour Congress obviously has very mixed feelings about being vindicated on the above issues; we would have much preferred some influence over policy directions that would have produced different outcomes. That, of course, is the purpose of our presentation today.

The Canadian Labour Congress certainly does not underestimate either the severity of our economic dilemma or the task of extricating ourselves from it. What began as a cyclical recession has taken on the dimensions of a more fundamental structural upheaval. Technological change and a volatile international trading environment shaped by relaxed tariff barriers on the one hand and protectionist pressures on the other, will combine to create further uncertainty.

A single budget will not erase the entrenched instability and vulnerability felt by individuals, families and communities across this country. It can and must begin the process.

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LABOUR'S PERSPECTIVE ON THE ECONOMY

The seemingly-endless barrage of information on our economic performance, whether notice of another plant shut-down or some statistical indicator such as the latest unemployment rate, serves over and over to confirm what we all know - that we are experiencing conditions which can be compared only to the Great Depression of the 1930's.

The Congress continues to believe that the central, overriding reason for this state of affairs is that aggregate demand in the economy - spending by consumers, by governments, by corporations on capital investment and by foreigners for our exports - is far below the capacity of the economy to produce. Our labour, plant and equipment are increasingly idled. For example, investment in new housing, depressed by unaffordable interest rates, dropped to a 20-year low (130,000 starts) in 1982; we need about 250,000 starts annually to keep up with demand. The shortfall in starts amounts to over 350,000 units in the past five years. This, coupled with the drop in new plant spending means the construction industry is now operating at only 55 per cent of capacity.

Since August, 1981, nearly 600,000 jobs have disappeared, about half of them from the manufacturing sector. By December, 1982 over 1.5 million Canadians (12.8 per cent of the labour force) were «officially» unemployed. When so-called «discouraged» workers and part-time workers who want full-time employment are included, the real level of unemployment exceeds 2 million and threatens to go even higher in the absence of emergency action by government.

This degree of enforced inactivity is not only intolerable in terms of wasted talent and potential, it also extracts a financial cost that permeates all levels of the economy. For example, based upon Finance Department estimates that for every 84,000 jobless Canadians the government loses $1 billion in tax revenues, the increase in the number of unemployed since August, 1981 alone has meant nearly $7 billion in foregone revenues.

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This does not even include the added unemployment insurance and welfare burden. There is little mystery about the cause of rising deficits under these circumstances.

Consumer spending, which normally accounts for over 60 per cent of final spending in the economy, has been slowing for the past five years as declining real earnings and expensive credit have forced people to cut back on both domestic and imported products. In fact, our large trade surplus which is often mistaken as a positive sign, is due to imports falling more rapidly than exports. The decline in personal spending has in turn caused capacity utilization in industry to fall below 70 per cent which has, not surprisingly, resulted in a collapse of new investment.

As far as federal government expenditures are concerned, policy since 1975 has been to hold them to the trend rate of growth of GNP. This has resulted in a decline in real government spending.

The crucial engines of economic growth - consumer and government spending and business investment - have therefore all sputtered simultaneously (we admit there are limits on what the government can do to improve international markets for Canadian goods and services particularly given the current trade climate). As a consequence total output has fallen for five consecutive quarters to a point almost 7 per cent below that reached during the second quarter of 1981. This is the most prolonged and biggest decline in output since the early 1930's.

Having brought our description of the economic paralysis this far, the critical question becomes: from where can we expect a recovery? Assuming no change in federal policy, the answer is simple: nowhere!

There are however alternatives, specifically in the form of direct government spending and stimulation of consumer demand. The third element - private investment - will only

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follow action on the other two fronts. Businesses expand in response to increased market demand for their products. The main domestic customers - individual consumers and governments - must have the capacity and willingness to spend. Any belief the government may be harbouring that the solution lies in drawing out investment capital through additional tax incentives, should be abandoned. This «top-down» approach simply will not work; there will be no investment led recovery.

Initiatives in the areas of public spending for much-needed job creation and encouraging consumer demand rest on government reversal of its recent past practice. This should include repudiation of its entire 6 and 5 program which is helping to accelerate the downward spiral. The Congress has protested 6 and 5 on two main grounds. First, in singling out retirees from the federal public service, current employees under federal jurisdiction, families with children and people over the age of 65, it is highly selective and discriminatory. Second, by removing from these groups an estimated $1.16 billion over fiscal years 1982-83 and 1983-84, the government is further eroding purchasing power in the economy. It is unfair and bad economics at the same time. «Prosperity through poverty» is an illusion, a dangerous one that must be overturned.

The economic behavior of consumers is influenced by two factors: the capacity to spend, ie. disposable income, and confidence in the future when assessing the advisability of assuming debt. Both require restoration.

Efforts aimed at boosting government and consumer spending will inevitably bump against the fixation over the size of the deficit. The deficit is basically a product of

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shrinking revenues and the related strain of increased unemployment and welfare payments. Given that, the question of whether we can afford to enlarge the deficit has become increasingly irrelevant. Instead, the question really is: can we afford not to? As the depression deepens, our options will be progressively shortened, as more funds are directed into income-maintenance and taxes dwindle. Recent OECD figures on deficits for all levels of government in Canada and other industrialized nations confirm what Mr. Trudeau observed in early 1980, ie. our overall government deficit as a percentage of GNP is not out of line (in fact, it is at the low end of the scale).

Using the deficit as an argument to block short-term stimulus is therefore just not acceptable or accurate.

ECONOMIC RENEWAL : SOME GUIDEPOSTS

The Canadian economy today is not unlike a seriously injured person facing a long period of rehabilitation. No one expects recovery to automatically follow a one-shot bit of surgery. What is reasonable is to establish a rebuilding program, each stage of which is related to an ultimate objective.

The forthcoming budget, perhaps one of the most important in our history, must fulfil the role of economic doctor. It must provide a blueprint for future economic direction that will be supported by subsequent budgetary and non-budgetary measures. In the context of that blueprint, it must reflect positive leadership by taking some initial steps towards economic renewal. In other words, it must begin to counter the negatative momentum of the depression through visible short-term plans that are consistent with long-term principles and strategies.

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In the words of the Catholic Bishops, the budget should at least address and start to transform the «moral disorder» in our society's economic realities.

The Congress has chosen to express its general framework for renewal that is just and achievable in terms of the following four socio-economic rights:

1) THE RIGHT TO A SECURE JOB
2) THE RIGHT TO A DECENT INCOME
3) THE RIGHT TO NEEDED PUBLIC SERVICES
4) THE RIGHT TO FREE AND FAIR COLLECTIVE BARGAINING

Each of these rights, which we assume not to be contentious, deserves a detailed explanation which would detract from the primary purpose of this presentation. Briefly though, they can be summarized as follows:

1) <u>The Right to a Secure Job</u>

The longer term foundation of this right is a commitment to full employment as the country's number one socio-economic goal. It includes: increased processing of raw resources to enhance our job-content in trade; the creation of a manufacturing base and a service sector capable of supplying Canada's economic development requirements through both public and private enterprises; greater public control of the investment process to ensure more corporate disclosure, accountability and domestic industrial benefits; replacement of tax expenditures by industrial grants tied to performance standards such as job creation; an active manpower policy to promote planning, training, and mobility and the mobilization of Canadian financial resources for re-industrialization by greater public accountability and control over our financial institutions.

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2) The Right to a Decent Income

This right is directed primarily at pension and tax reform. Retirement incomes provided through OAS, GIS and CPP/QPP should be improved to alleviate the poverty rate amongst the elderly. The regulation of private pension plans should focus on broader eligibility, earlier vesting and portability. Since 1950 corporate taxes as a percentage of total government revenues have declined by more than half while the share of personal taxes has almost doubled. This shift in the tax burden needs to be reviewed against the principle of equity and fair sharing.

3) The Right to Needed Public Services

Cutbacks in transfer payments to the provinces for social programs threaten the standard of health care, education and social services across Canada. This right says that is unacceptable especially in relation to the importance of preserving Medicare. The poor, elderly and defenceless must be guaranteed meaningful (in terms of cost) access to these services.

4) The Right to Free and Fair Collective Bargaining

This right would ensure that unilateral and arbitrary government action such as Bill C-124 and its provincial counterparts would not be allowed to disrupt industrial relations in our democratic society. The right would also extend to the private sector where employers have received aid and comfort from the federal 6 and 5 program.

The Congress feels strongly that these four rights, if embraced by the federal government, would provide a coherent and progressive set of standards against which short- and medium-term policies could be judged.

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ECONOMIC RENEWAL: A BEGINNING

The Congress maintains that the most pressing concern facing Canada and the federal government is the creation of jobs. In the spirit of the four rights identified above and in recognition that our specific proposals below are limited to that immediate concern and the need to at least set out on the road to recovery, we therefore recommend this five-point program for inclusion in the budget.

1) The federal government in co-operation with the provinces should undertake a major public investment program in housing and social capital. This should include direct government funding for:

- provincial and municipal transit systems
- low cost housing units
- regeneration and reforestation in the forestry sector

These expenditures are in addition to any monies presently earmarked for such projects.

2) A personal income tax cut directed to low and moderate income earners should be made effective immediately. This would help restore lost purchasing power to the lowest income groups and for greater equity it should include tax cuts in the form of a refundable tax credit. Consideration should be given also, to compressing the time frame for the tax cut, eg. via a moratorium, to achieve a concentrated injection of new purchasing power.

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3) As an income maintenance measure and as a means for keeping more spending power in the economy, all U.I. exhaustees on a claim established after January 1, 1982 should be extended for 26 weeks, the cost of which should come from general revenue.

4) In order to inspire consumer confidence in undertaking major purchases and borrowing, the budget should contain a new made-in-Canada interest rate policy set by our economic priorities and not the U.S. Federal Reserve Board. In particular, stabilization of mortgage interest rates should be ensured.

5) The 6 and 5 program should be scrapped. There is no substitute for free collective bargaining as a means for working people to establish their conditions of employment. Besides, 6 and 5 is socially unjust as well as economic nonsense in that it deprives an already-starved economy of badly-needed purchasing power.

In total, this package would bring new stimulus to the economy by an increase in public spending and a restoration of purchasing power. To realize quick job creation and consumption the stimulus would have to be of an amount sufficient to start restoring economic growth and bring unemployment down. Any short-term increase in the deficit we are advocating would be reversed by the increased revenues it would generate. Also, it should be noted that every one per cent reduction in unemployment would reduce the cost of U.I. by nearly $900 million. And, with the amount of unused capacity in both our capital and labour markets, increased government expenditure would not increase the inflation rate (which has been primarily affected by the high cost of money and energy).

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CONCLUSION: PROCESS AND WILL

Nearly forty years ago, in its April, 1945 White Paper on Employment and Income, the federal government set the maintenance of «a high and stable level of employment and income...as a primary object of policy».The White Paper went on to state:

> «This goal cannot be achieved by legislation alone, nor by a single device or plan. In this, it is like the wartime stabilization program. Its attainment will require the effective working of a number of compatible policies, all directed to the same end, and each contributing to the success of the others. It will not be enough that it is an object of government policy. It must be an object of national endeavour. The active cooperation of all governments and groups in the country will be essential to success.»

At that time, the goal of the federal government was postwar reconstruction and the achievement of full employment. Today, we are in the middle of another war, an economic war and our goal should be no less.

For example, if it is possible for the government to set targets for the rate of inflation, is it not equally reasonable to set targets for the level of unemployment and establish means by which they can be reached?

Likewise, the White Paper's emphasis on the need for active co-operation among all sectors and all governments is appropriate in the present circumstances. Ironically, our collective economic misery has within it the potential for much progress in terms of co-operative federalism and for improved relations amongst labour, business and government. It also contains all the ingredients for widespread division,

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acrimony and bitterness. Without overstating its importance, the federal budget will provide a closely-watched indication of the federal government's policy direction,commitment and intended relations with other governments and institutions in our society.